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ABSTRACT

During the decade of the 1990's, financing will become a primary concern for most community colleges. Developed to address the need for a more comprehensive understanding of issues related to finance, this report reviews the predominant community college financial trends for the 15-year period from 1976 to 1991. Divided into sections covering three 5-year periods, the report provides detailed annotations for 68 major bibliographic sources. Each section is preceded by a narrative summary of the primary trends for the designated period, outlining the material reviewed in that section. The 24 sources reviewed in part 1, covering the period 1976-1980, reflect the concerns generated by the declining economic conditions that began in the late 1970's. This literature falls into the three main areas of: planning, budgeting, and fiscal management; fund raising; and state funding. The 20 sources examined in part 2, covering the period 1981-1985, focus on the following major topics: conferences and research studies related to financial trends and concerns; suggested management strategies for dealing with financing problems; and state funding issues. In the final section, covering material from 1986-1991, the 24 annotated sources reflect a growing interest in the development of new revenue sources for community colleges; the identification of methods to control costs; and information about state funding issues. Included in this section are materials dealing with the following topics: foundations; auxiliary services; contract training; planned giving; non-cash donations; proactive management; formula funding; and financial aid. (PAA)

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FINANCING COMMUNITY COLLEGES

Review of Trends and Annotated Bibliography

1976-1991

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INTRODUCTION

During the decade of the 1990s financing is or soon will be a primary area of concern for most community colleges. In response to the need for more comprehensive understanding of such a critical topic, this document reviews the predominant community college financial trends of the past fifteen years. Over sixty five major sources are summarized in five year intervals, from 1976 to 1991, thus providing insights into the challenges and opportunities facing the people's college. The annotated bibliography for each five year period is preceded by a summary of salient trends for the designated time frame.

An important outcome related to the literature review has been the development of a comprehensive community college financial survey instrument. This instrument was first used in the state of Arkansas to assess the financial conditions of a newly formed community and technical college system. Its initial use proved helpful in identifying practices employed to generate revenue sources and control costs. Staff development needs were also assessed.

Financing Community Colleges

1976 - 1980

The 1960's and early 1970's were favorable times for community colleges. During this period, many colleges added new educational and operational programs, expanded their faculty and staff, constructed new facilities, and opened their doors to practically anyone who had an interest in their offerings. To a large extent, this growth was made possible by generous financial support from the federal and state governments and local communities. By the late 1970's, however, this favorable environment began to change. General economic conditions across the country declined, inflation reached record highs, federal and state budgets tightened, and the public began to demand that taxes be reduced. These changing conditions resulted in reductions in community college funding, which in turn quickly changed the emphasis at many institutions from expansion to retrenchment.

The literature of this era reflects the concerns generated by this changing environment and can be divided into three main topics: (a) planning, budgeting, and fiscal management; (b) fund raising; and (c) state funding.

Concerning planning, budgeting, and fiscal management, a variety of works are available in this bibliographical section. First, Allbright (1979), in ***Institutional Planning and Budgeting***,

presents a model for the development of a college planning team. According to Allbright, this team should have responsibility for (a) the coordination of all institutional planning and budgeting activities and (b) ensuring that all institutional resources are efficiently used and directed toward accomplishing the college's mission and goals. Secondly, Fischer and Stauffer (1978), in ***Starting from Ground Zero***, and Hardin and Lee (1979), in ***Zero Based Budgeting***, identify zero based budgeting as a useful tool for controlling costs and ensuring the optimal use of college resources. These works define zero based budgeting, describe its application to the community college environment, and identify the advantages of this budgeting method over traditional budgeting techniques. Thirdly, in ***Financial Planning and Management - New Strategies***, Mann (1979) describes a management model that can help community college leaders address the critical financial issues confronting their institutions. Mann's model emphasizes information sharing by key college faculty and staff, the development of effective accounting/budgeting systems to gather and report relevant financial data, and a pro-active management style that strives to identify potential problems and develop appropriate and timely responses. Fourthly, Richardson (1978), in ***Adapting to Declining Resources Through Planning and Research***, examines the role that an institutional research office can play in assisting college officials during periods of tight resources.

Finally, in ***The President as Money Manager***, Simms (1978) discusses the president's role in managing the financial affairs of a community college.

In addition to developing improved management systems and processes, current economic conditions require that community colleges develop new sources of revenue. One method by which colleges can solicit additional funding is through a tax referendum wherein local citizens are asked to provide additional support for the college. Two publications in this section related to this subject include: ***Winning is the Name of the Game***, by Fischer (1978) and ***Is Your College Ready for a Referendum***, by Slocum (1978-79). In these articles, the authors provide strategies for planning and conducting a successful tax referendum. Another source of revenue that should be considered by community colleges is governmental and/or private foundation grants. In ***Shotgunning for $***, Young (1978) identifies two methods by which colleges can solicit grant monies, describes the financial and operational benefits associated with grants, and reviews several potential problems that grant projects can create for college leaders. Finally, in the article ***Funding Community-Based Education: Who Pays***, Hollingsworth (1978) points out that numerous federal agencies (e.g., The National Endowment for the Humanities and the National Endowment for the Arts) often provide

funding for programs that relate directly to community college goals.

The third major topic in this bibliographical section is state formula funding. Three publications in this section address this subject: ***Marginal Funding: A Difference that Makes a Difference***, by Monical and Schoenecker (1980), ***Formula Budgeting: Requiem or Renaissance***, by Moss and Gaither (1976), and ***The Declining Suitability of the Formula Approach to Funding Public Higher Education***, by Temple and Riggs (1978). Collectively, these authors describe the formula process, identify the advantages and disadvantages associated with formula funding, and recommend alternatives to this funding method.

Other financing topics addressed in this section include:

* A discussion by Augenblick (1979) of equity issues related to: (a) state allocation methods, (b) varying tuition rates at different community colleges within the same state, and (c) funding capabilities of individual districts based upon property values.
* A general review of the trends, funding opportunities, and financial problems affecting community colleges by Gleazer (1980), Gragg and Hassenflow (1979), Johnston (1977), and Wattenbarger (1979).
* A discussion of the effects of tuition increases on students in different income classes by Johnson and Leslie (1976).

* A review of the potential effects of budget reductions on the community college commitment to an open-door policy by Kaster (1979).
* A discussion of various methods for controlling costs by DeCosmo (1978) and Patterson (1978).
* A review of the financial advantages and operational disadvantages of utilizing part-time faculty in lieu of full-time staff by McCabe and Brezner (1978).
* An analysis by Henderson (1978) of the role that state educational agencies should play in assisting community colleges during periods of scarce resources.

FINANCING COMMUNITY COLLEGES

Annotated Bibliography

1976-1980

Allbright, A. R. (1979). Institutional planning and budgeting - A team approach. Community College Review, 7, N2, 30-35.

In this atricle, the author describes a financial planning and budgeting system that was implemented at Alvin Community College in Alvin, Texas. The system incorporated elements of short and long term budgeting with a management by objectives approach to planning. On a global scale, the college created a planning team that had overall responsibility for (a) coordinating budgeting and planning activities among the various departments, (b) ensuring that short-term operating budgets reflect the goals of the college's long-range plan, and (c) comparing actual results to budgeted plans at least two times per year.

Augenblick, J. (1979). Institutional financing: An equity problem. Community College Review, 6, N4, 47-54.

In this article, Augenblick identifies and discusses three equity issues affecting community colleges. First, some states allocate less funding (per student) to community colleges than they do to four year institutions - an inter-sectoral equity problem. Secondly, community colleges within the same state may charge different amounts for tuition and fees - an inter-student equity problem. Thirdly, tax rates and property values within each district usually vary, causing some community colleges to receive considerably more local support than others - an inter-district equity problem.

The specific issue of inter-district equity is further reviewed via a study of district funding to community colleges in California, Illinois, New Jersey, and Mississippi. Through this study, the author found that wealthy districts have two distinct advantages over less wealthy districts: they can raise more local tax revenue due to higher property values and their student clientele can support higher tuition levels.

Decosmo, R. (1978). Reduced resources and the academic program. New Directions for Community Colleges, 22, 45-51.

During periods of tight financial resources, community college leaders often reduce expenditures on instructional equipment, supplies, library materials, and maintenance. In addition, programs for non-traditional students are frequently reduced. While such actions provide temporary financial relief, they often diminish the overall quality of the college's offerings. This, in turn, leads to reduced enrollments, which causes additional financial shortages, leading to more cutbacks, and thus creating a continued cycle of decline.

In lieu of the above scenario, the author proposes that community colleges adopt a different approach to reduction and/or reallocation. According to Decosmo, two promising approaches are (1) planning and reallocating and (2) pruning and grafting. Under planning and reallocating, key community college faculty and staff perform a global review of the institution's current mission, goals,

strengths and weaknesses, opportunities, and threats. Based upon this analysis, the officials identity the best possible direction for the college's future and begin moving in that direction. The global review is supplemented by a program review wherein each program currently in place is examined to determine its: (a) purpose, (b) history of growth and development, (c) cost, and (d) future role in the college. Using this information, decision makers can reduce, eliminate, or expand programs as needed in order to improve the effectiveness and efficiency of the college. Under pruning and grafting, college officials review existing programs to ascertain if they can be trimmed in cost or possibly consolidated with other programs without affecting the quality of the program. If such actions are possible, cost savings can be generated and funding made available for new programs or courses that could enhance the quality of the college's offerings.

Fischer, G. A. (1978). Winning is the name of the game. Community and Junior College Journal, 49, N3, 38-40.

Within the past ten years, 95% of tax referendums dealing with community colleges have failed. According to the author, many of these failures resulted from the lack of effective strategies for conducting successful campaigns.

Fischer offers the following suggestions for colleges planning a referendum.

1. Develop a short and clear statement as to why the college needs additional funding and why such funds are not available through normal channels.

2. Make the taxpayers aware of the proposed tax levy and the amount that each voter will have to bear.

3. Make certain that an adequate promotional program exists to inform the voters of the benefits that will result from the tax increase.

4. Establish a broad base of advocacy from each segment of the voting population.

5. Carefully select a faculty member or administrator to plan, organize, and lead the campaign. This individual should be released from all other responsibilities during the campaign.

Fischer, W. B. and Stauffer, R. H. (1978). Starting from ground zero. Community and Junior College Journal, 48, N5, 19-22.

This article describes a zero-based budgeting model that was implemented at Erie County Community College (ECC) in Buffalo. The purpose of the new budgeting model was to control cost and insure that scarce resources were allocated to programs that could best contribute to the accomplishment of the institution's mission and goals. Under zero-based budgeting, every institutional program at ECC was analyzed in relation to its cost and expected outcomes. No program was entitled to future funding unless its continuation was justified. Evaluation criteria included: number of graduates, the

placement or transfer of graduates, projected enrollment, salaries, supply and equipment cost and other elements which indicated the cost and effectiveness of each program.

According to the authors, zero-based budgeting can assist community colleges in allocating funds to programs that have growth potential and avoid the continued funding of programs that are no longer effective or necessary.

Gleazer, E. J. (1980). Who pays? For what? The Community College: Values, Vision, and Vitality (pp. 116-137). Washington D. C.: AACJC Publishers.

According to Gleazer, community colleges are beset by numerous financial problems. First, inflation often results in increased cost to the community college without corresponding increases in state allocations. Secondly, adequate funding does not usually exist to fully support all the programs created during the growth era (1960's and 70's). Thirdly, it is unlikely, during the next several years, that the general public will support additional taxes for higher education. Fourthly, funding formulas commonly used by states often force the colleges to adapt their missions to the formula instead of truly serving the needs of the community. Finally, many community college leaders are concerned that, as states assume an increased role in funding the colleges, they will also demand an increased voice in their operations.

To combat these problems, Gleazer suggests that community college leaders, both individually and as a group, work aggressively to persuade both the public and policy-makers that it is in the best interest of the community, the state, and the nation to support the community college system.

Gragg, W. L. and Hassenflow, D. (1979). Is there a foundation in your future. Community College Frontiers, 7, N2, 31-32.

This article discusses the steps that are required to establish a foundation. First, the board of trustees should authorize the establishment of a foundation and clearly state its proposed mission and goals. Secondly, an attorney should be retained to prepare articles of incorporation. Thirdly, the articles of incorporation should be forwarded to the office of the Secretary of State. Fourthly, bylaws must be written indicating the power and duties of the foundation officials, rules governing the management of the funds, and other regulations. Fifth, Form 1023 must be filed with the Internal Revenue Service requesting tax exemption and authorization to accept tax deductible contributions. Once Internal Revenue Service approval is obtained, the foundation can begin to solicit donations.

Hardin, B. and Lee, R. (1979). Zero base budgeting - A catalyst for improved management. Community College Review, 7, 51-56.

In this article, the authors define zero based budgeting (ZBB), delineate the major differences between this budget process and conventional budgeting techniques, and describe the implementation of such a system at Chemeketa Community College in Oregon. Under zero based budgeting, an institution examines all expenditures in light of their contribution to the college's mission and goals. Based upon the expected benefits and costs of each program, a priority list is generated reflecting those programs that should be continued or started and those programs that should be reduced or eliminated. As opposed to traditional budgeting techniques, ZZB does not automatically allocate a base funding level to every program. Instead, funding is only allocated to those programs that can be justified.

Advantages of zero based budgeting include: (a) it forces educational leaders to thoroughly examine every program, (b) duplication and waste in both educational and operational areas are often eliminated, (c) money can be reallocated from non-productive programs to programs that enhance the quality of the college, (d) it serves to involve the educational staff in the budget process, and (e) it focuses accountability for the cost and outcomes of the program at the department level.

Henderson, L. G. (1978). State agencies and effects of reduction. New Directions for Community Colleges, 22, 27-34.

This article reviews the changes that may occur in the interaction between community colleges and state educational agencies resulting from declining enrollments, budget shortfalls, and reduced public confidence in higher education.

State legislators may be tempted to respond to such conditions by demanding more state control over programs, policies, and expenditures. According to the author, both legislators and state administrators should avoid such actions as they normally lead to excessive centralization that benefits neither the individual community colleges nor the statewide system. Instead, state agencies should re-examine their operations and concentrate on four major areas.

1. Information and Accountability - Agencies should develop an information system that efficiently collects data and is flexible enough to allow manipulation of the data for various reporting purposes.

2. Communication and Advocacy - The state agency should equally represent the needs and interests of the local colleges, students, the legislature, and the public. A strong and fair state agency can: (a) eliminate internal fighting among the colleges, (b) discourage pork barrel financing by legislators, and (c) foster public support for the state's higher education system.

3. Funding - State agencies should thoroughly examine their funding methods to ascertain if formulas, policies, etc., are appropriate in the current economic climate.

4. Change agent responsibilities - During periods of declining enrollment and/or resources, state agencies should provide innovative leadership and assistance to individual institutions by helping them respond to changing needs.

Hollingsworth, G. D. (1978). Funding community-based education: Who pays? New Directions for Community Colleges, 21, 53-63.

This publication examines the problems related to the funding of community-based education and suggests possible sources of revenue.

Community based education provides benefits to the individual participants and for society as a whole; however, many individual users of these services cannot afford to pay and states normally choose not to provide public support for such programs. Thus, if community colleges desire to provide community-based education programs, other sources of revenue must be found. The author suggests two main sources for such funding. First, numerous federal agencies (for example, The National Endowment for the Humanities, The National Endowment for the Arts, The Comprehensive Employment and Training Act) often provide seed money to help create programs that relate directly to community-based education. Secondly, community colleges should aggressively solicit support from local businesses, professional groups, foundations, etc. The key for success in this

area is to relate the benefits of the college's program to the goals and purposes of the organization being solicited. The author concludes the article by suggesting a model for soliciting community support.

Johnson, G.P. and Leslie, L.L. (1976). Increasing public tuition in higher education: An alternative approach to the equity issue. Educational Administrative Quarterly. 12, N1, 27-39

In this article, the authors equate higher education to other social goals that our country deems necessary and beneficial for the national good. Since the government normally pays for socially desirable programs via tax monies, tuition can be considered a form of taxation. Based upon this analogy, Johnson and Leslie review the effect of tuition increases on students in various income levels.

According to the authors, tuition increases adversely affect middle income students more than low or high income students. The reason for this is twofold: First, middle income students, unlike low income students, normally do not qualify for financial assistance that reduces or eliminates the effect of the tuition increase. Secondly, unlike high income students, middle income students do not posses unlimited recourses to pay aditional tuition.

In order to eliminate this inequity, the authors suggest that the income ceiling for participation in educational assistance programs be raised, thus allowing a larger number of middle income students to qualify.

Johnston, J. R. (1977). Funding and control: Critical choices for community colleges. Community College Review, 5, N2, 59-65.

The era of rapid growth has come to an end for most community colleges. As enrollments stabilize and government support becomes less certain, community colleges must begin to examine their priorities and develop policies that allow them to operate with reduced resources.

According to Johnston, community college leaders and public officials must, in the coming years, address three major issues:

1. What should be the future priorities of community colleges - transfer programs, career education, community service, developmental programs, etc?
2. Where can colleges obtain additional funding to offset expected future decreases in public support?
3. Who will control the community colleges, the local board or the state planning agencies, (statewide planning is often considered more efficient; however, excessive central planning often results in the needs of the local community being ignored)?

Kaster, H. H. (1979). Modifying the open door. Community College Review. 6, N4, 28-33.

As state and local funds become scarce, many individuals are beginning to question the ability of community colleges to afford an open door policy. In an effort to partially address the problem of financial uncertainty, Kaster recommends that community colleges

adopt a differentiated student fee structure. In this article, the author describes a fee structure that would possess the following elements:

1. Every resident citizen would be entitled to two years of college at low tuition rates, as this type of education benefits society.
2. Community based educational programs that assist in solving community or statewide problems would be available to citizens on a low or no-cost basis.
3. Adult continuing education directed toward lifelong citizenship development would be available at low cost.
4. Out-of-state and foreign students would pay, via tuition and fees, the total educational cost associated with their programs.
5. Students involved in avocational and recreational programs would pay the total cost of their programs.
6. A graduated scale of charges would be available for other circumstances (for example, students returning to the community college after receiving two years of low tuition would pay 60 percent of the educational cost of their programs upon returning the first time, 80 percent the second time, and 100 percent the third time.

Mann, W. J. (1979). Financial planning and management - New Strategies. New Directions for Community Colleges, 28, 29-40.

During the community college growth era, almost any management method produced acceptable results. Unfortunately, the future of most community colleges is not one of growth but one of declining

enrollments and reduced state support. In order to survive and prosper in such an environment, community college leaders must develop a strong financial planning management system.

According to Mann, a successful financial/management model must include several elements. First, the model must encourage meaningful involvement and information sharing by key educational and administrative staff. Secondly, a solid accounting and budgeting system must exist to provide timely and accurate reports by cost centers and responsibility levels. Thirdly, the financial system must allow for early detection of financial problems so that corrections can be made in an orderly manner. Fourthly, a limited number of key revenue and expense indicators should be identified and monitored as to their impact on the overall financial condition of the college. Finally, financial reports should be presented in a format that permits the comparative review of current year data to similar data for the past five years and to future projections or estimates.

McCabe, R. H. and Brezner, J. L. (1978). Part-time faculty in institutional economics. New Directions for Institutional Research, 18, 59-72.

In this article, the authors examine the use of part-time faculty as a means of reducing cost and providing staffing flexibility. On the average, part-time faculty are paid about 40 percent less than full-time faculty per credit hour. In addition,

part-time faculty seldom receive the same fringe benefits as their full-time counterparts and normally receive smaller rate increases than do full-time faculty. Such factors make the use of part-time faculty economically attractive to community colleges during periods of tight financial resources. In addition to the above financial advantages, part-time faculty can improve an institution's flexibility in: (a) dealing with fluctuating enrollments and (b) staffing special purpose programs that are not offered often enough to warrant hiring full-time personnel. Despite the above benefits, the authors suggest that part-time faculty not exceed one-fifth of a community college's total faculty pool. This restriction is due, in part, to the fact that students who enroll in community colleges are extremely diverse in competencies, experiences, and goals. This diversity necessitates that faculty have training and experience in teaching methodology to perform successfully.

Monical, D. G. and Schoenecker, C. V. (1980). Marginal funding: A difference that makes a difference. Research in Higher Education, 12, N1, 67-81.

In this article, the authors suggest that traditional funding formulas that are enrollment driven and linear in nature have never been entirely appropriate for higher education. This is due to the fact that such formulas fail to take into consideration the fixed and variable components of institutional costs. Since fixed costs remain the same regardless of enrollment levels, pure linear funding often

results in colleges and universities being overfunded during periods of enrollment growth and underfunded when enrollments decline.

In lieu of linear formulas, the authors suggest that legislators and state educational boards adopt an appropriation model that utilizes marginal funding concepts. Under this model, institutions would receive funding based upon three main elements:

1. Fixed cost (within the system or institution).
2. Marginal cost associated with increasing or decreasing enrollments.
3. Finally, the above totals would be combined and adjusted for inflation.

Such a funding model would be practical, easily understood by legislators and the public, and provide for more efficient use of public funds.

Moss, C. E. and Gaither, G. H. (1976). Formula budgeting: Requiem or renaissance. Journal of Higher Education, 47, N5, 543-563.

In this article, the authors review the evolution of formula budgeting/funding, identify the three most common types of formulas used today, examine the advantages and disadvantages of using formulas, and discuss the future use of formulas as a funding tool.

The growth of formulas as a mechanism to allocate funds to colleges and universities can be attributed to three significant factors. First, the desire by public officials to remove politics (real or perceived) from the allocation process. Secondly, the

desire by legislators to achieve a more equitable distribution of scarce resources among their state's institutions. Thirdly, the need to relate allocations to objective operational factors at the colleges and universities.

Three main methods of formula budgeting currently dominate the allocation process in most states:

1. Rate-per-base factor method - Under this method, a base factor such as FTE enrollment is multiplied by a predetermined rate to arrive at the budget or allocation amount.

2. Percentage of base factor method - This method assumes that a correlation exists between an established base (e.g. faculty salaries) and other areas (e.g. student services). Thus, based upon predetermined studies, a percentage would be applied to the base factor to arrive at the budget or allocation for the correlated area.

3. Base-factor-position ratio method - This formula is based upon the assumption that an acceptable ratio exists between a base factor, (e.g. number of credit hours) and the number of personnel needed (e.g. faculty).

The advantages associated with formulas include ease of use and uniformity. In addition, formulas provide a method to comparatively review institutions. The main disadvantage of formulas is that they operate in a linear fashion and thus, fail to recognize that most institutional expenditures are not linear in nature but instead, have fixed and/or variable components.

According to the authors, new formulas should be developed that (a) recognize the fixed nature of many college costs, (b) incorporate quality factors into the allocation process, and (c) are flexible enough to respond to changing economic conditions.

Patterson, L. K. (1978). A lesson in accountability. Community and Junior College Journal, 49, N2, 14-18.

This article describes Amarillo Community College's (ACC) efforts to control/reduce costs. These efforts evolved from a philosophy that the college should be more efficient with its existing resources instead of requesting additional funding from taxpayers. At the beginning of the program, administrators of ACC discovered that the college would have to spend some initial money in order to generate future cost savings. First, the college hired a management consulting firm to study the college's operations and recommend changes to increase employee productivity in maintenance, the registrar's office, and other areas. Secondly, ACC invested in a computerized energy management system to reduce utility usage. Thirdly, the college eliminated automatic pay raises and began to reward employees solely on merit. Such actions, plus others, have resulted in the college saving several hundred thousand dollars over the past few years.

Richardson, R. C. (1978). Adapting to declining resources through planning and research. New Directions for Community Colleges, 22, 67-76.

This article describes the role that institutional planning and research (IPR) can play in assisting community college leaders manage their institutions during periods of scarce resources. Institutional planning and research can help provide answers to questions such as: (a) what are the costs and benefits of each program, (b) should limited resources be re-allocated to new and promising programs or should they be used to strengthen weak programs, (c) how can faculty be re-allocated to better serve the needs of the students, and (d) what are the needs and desires of our current and future students? In short, institutional planning and research can help colleges anticipate and act rather than react.

The author describes the implementation of an institutional planning and research program at North Hampton County Area Community College in Pennsylvania. According to Richardson, the IPR process, as implemented at Hampton, had several positive effects. First, it made planning a priority. Secondly, it helped faculty and staff focus on the critical problems of the college. Thirdly, it forced all key members to be cost conscious. Finally, by involving key personnel throughout the college in the process, complaints about college conditions and the velocity of change diminished.

Sims, H. D. (1978). The president as money manager. Community and Junior College Journal, 48, NZ, 20-24.

This publication discusses the president's role in managing the financial affairs of a community college. Sims indicates that current and future economic conditions will force community college leaders to take an active role in managing the revenue and expenditures of their institutions.

According to the author, presidents should concentrate their financial planning/management efforts in four key areas. First, the president must ensure that the college has an efficient reporting system which provides timely and accurate financial reports of actual, budgeted, and projected data. Such a system should include a five year planning model for projecting trends in enrollments, staffing needs, revenue levels, and expenditures. Secondly, presidents should spend a considerable amount of their financial management time with state legislators to ensure that they have an understanding of the college's current and future needs. Thirdly, the president must create an atmosphere that emphasizes quality over quantity. Funding must be redirected away from programs that simply make the institution bigger and toward those programs that make the institution better. Fourthly, adequate reserves should be maintained to pursue promising educational opportunities. In this area, the author recommends that community colleges attempt to maintain reserves equal to ten percent of their annual operating budget.

Slocum, D. (1978-79). Is your college ready for a referendum? Community and Junior College Journal, 49, N4, 35-38.

This article examines several issues that must be addressed by a community college if it hopes to have success in soliciting additional finances via a tax referendum. First, the community college must ensure that it is operating efficiently and effectively with its current resources. If the college is wasteful, such facts normally cannot be hidden from the public and will assure the defeat of a referendum. Secondly, the college must analyze its needs in relation to additional resources and be prepared to clearly explain those needs to the public. Thirdly, the college must increase its visibility and credibility within the community. To this end, the author suggests that the college:

1. Provide the media with news reports concerning institutional programs, activities, etc.
2. Involve community leaders on various advisory boards.
3. Ask local businesses to contribute space for displays announcing campus events. Such an activity fosters a sense of involvement by the business personnel and increases the college's exposure within the community.
4. Sponsor campus events (e.g. plays, lectures, concerts, etc.) that attract citizens to the campus and help them identify with the college.

Temple, C. M. and Riggs, R. O. (1978). The declining suitability of the formula approach to funding public higher education: Rationale and alternatives. Peabody Journal of Education, 55, N4, 351-357.

In this article, Temple and Riggs provide a brief review of formula funding in higher education, identify several problems that may occur when states allocate funding based upon formulas, and propose an alternative allocation method.

According to the authors, formula funding presents several problems: (a) most formulas were developed during periods of rising enrollments, thus they often do not provide adequate adjustments when enrollments stabilize or decline, (b) formulas tend to be rigid and fail to take into consideration the unique mission of a program or an institution, and (c) formulas, by their nature, tend to have a leveling effect, thus making all the state's colleges average in quality.

In lieu of formula funding, the authors recommend that state planning boards allocate funds based upon program budgeting. Under program budgeting, programs (instead of departments) are the central factor in the budgeting and allocations process. An effective program budget cuts across departmental lines and clearly establishes the costs and benefits of each educational or operational program. Such a process would: (a) allow institutional leaders to project program outcomes and thus justify their requests and (b) permit state

planners and legislators to hold college officials accountable for achieving the projected results.

Wattenbarger, J. L. (1979). More money for more opportunity: Reappraisal. Journal of Education Finance, 4, 483-491.

The author emphasizes that the future ability of community colleges to maintain an open door policy, keep tuition low, and serve the diverse needs of their constituents will be challenged in the coming years by revenue shortfalls, volatile enrollment patterns, and higher operating costs. Institutional leaders, the public, and state officials must ascertain if the traditional role of community colleges warrants continuation. If the answer is "yes", then states must begin to develop support programs to provide the necessary funding.

To accomplish this goal, Wattenbarger suggests that public officials and college leaders:

1. Re-examine the budget process and (a) provide a better balance of support between transfer programs and community oriented programs and (b) recognize that allocation decisions should not be based solely on formulas but should also include judgement factors related to program quality.
2. Develop a workable division of authority between the local and state levels.
3. Work to ensure that the community college system is accessible to any individual who has a desire to participate.

Young, J. H. (1978). Shotgunning for $. Community and Junior College Journal, 49, N3, 42-44.

In this article, the author describes two methods by which institutions can actively pursue outside grant monies. One approach is to submit a grant proposal for all projects that become known to the college (i.e. shotgun for dollars). Under this approach, the institution assumes that it has nothing to lose and that, through luck, it may obtain some extra funding. This approach has several inherent disadvantages. First, it fails to consider whether or not the objectives of the grant match the college's mission and purpose. Secondly, it fails to consider whether adequate human and/or capital resources are available to successfully complete the project. Thirdly, the inability of the college to adequately fulfill the needs of the grant can result in the project's clientele being poorly served and thus a negative image being projected on the institution.

To avoid such problems, the author recommends that community colleges pursue grant dollars in an organized manner. To this end, the college should develop a plan for soliciting grant dollars that takes into consideration the ability of the college to successfully complete the project. In addition, several key college leaders should be involved in the decision to submit a proposal as opposed to one or two people who actually write grants. Also, consideration should be given to "if" and "how" the college can continue the program once the funding ceases. Colleges should be aware that certain governmental agencies award grants with the expectation that

the awardee will continue the program after the grant expires. Finally, only grants that fit the mission of the college should be pursued.

Financing Community Colleges

1981 - 1985

The literature between 1981 and 1985 related to community college financing focuses on three major topics: (a) conferences and research studies related to financial trends and concerns, (b) suggested management strategies for dealing with financing problems, and (c) state funding issues.

In relation to the financing conferences and studies, this bibliographical section includes the following works: ***Financing Community Colleges: The Brookings Study*** by Breneman and Nelson (1981), ***Public Two-Year College Funding and Program Patterns*** by Gilli (1982), ***Higher Education Financing Policies: States/Institutions and Their Interaction*** by Leslie and Hyatt (1981), and ***Money and Mission*** by Yarrington (1981). These publications reveal the following trends.

1. Future community college budgets will increase in total dollars, but decline in real (inflation adjusted) dollars.
2. Colleges will suffer from low political clout and shrinking public support.
3. Public officials will demand more financial and educational accountability.
4. State interest will remain primarily in transfer and vocational programs.

5. Many current state funding formulas are outdated and need to be revised.

6. Economic conditions will force college leaders to re-examine their institutions' missions and goals.

7. Colleges should begin to develop plans for reallocation and/or reductions.

In addition to providing information about current trends and problems, several works in this section furnish community college leaders with recommendations for dealing with the financing problems confronting their institutions. In ***Cost Accounting for Decision Makers***, Kaneklides (1985) suggests that community colleges develop strong cost accounting systems. According to Kaneklides, such systems can provide college leaders with important financial information that can improve their decision-making process. Kerr (1985), in ***Federal Era Has Ended for Colleges; Governors Now the Key***, discusses the fact that the federal government will be unable, due to budget deficits and national debt issues, to provide significant funding to community colleges in the foreseeable future. Considering this condition, Kerr suggests that college leaders begin to develop a strong relationship with their state's governor and major legislators. In ***Budgetary Decline: Asking the Right Questions***, Keyser (1984) identifies critical questions that community college leaders must ask about their college and its programs during periods of

budgetary decline. Mortimer and Taylor (1984), in ***Budgeting Strategies Under Conditions of Decline***, identify several mistakes that college leaders often make in attempting to resolve budgetary problems and provide suggestions for addressing the problems caused by inadequate revenue. Finally, Stumph (1985), in ***Auxiliary and Service Enterprises***, provides recommendations for improving the operational efficiency and effectiveness of auxiliary enterprises.

The third major topic addressed by the literature of this era is state funding. During the period of generous state financing, there was not much concern related to the details or mechanics of the various state allocation processes. However, as state resources became scarce, interest in formulas and other funding methods increased. Several articles in this section address these issues. First, Allen (1984), in ***New Approaches to Incentive Financing***, describes several funding models and discusses the possibility of incorporating financial incentives into the higher education funding process. Secondly, Brinkman (1984), in ***Formula Budgeting: The Fourth Decade***, provides a brief historical review of formula funding, identifies the advantages and disadvantages of this funding technique, and examines new formula trends. Thirdly, Taylor (1985), in ***The State Role in Financing Community Colleges***, describes the elements that should be part of any state's funding process and proposes a simplified model for the funding of

community colleges. Stumph (1984), in ***Financing Community Colleges - The Several Ways***, examines the funding methods used by states with large community college systems and states with few community college districts. Finally, Woodbury (1983), in ***Fair Share of Funding: Unmet Goal for Colleges***, compares the public monies (direct and indirect) accruing to public community colleges compared to private community colleges. According to the Woodbury, public community colleges are receiving too little funding and private institutions are receiving too much public monies.

Other works presented in this section include:

* A suggested model for coordinating the financial, budgeting, marketing, and operational affairs of off-campus community service programs (Adams, 1981).
* A proposal by Borah (1984) that higher education be funded by a tax on the earnings of former college students.
* A discussion of the special funding needs of small rural community colleges by Nazari-Robati and Zucker (1981).
* A review of the effects that changes in federal tax policy can have on the financial affairs of colleges and universities by Robinson (1985).
* A discussion of strategies for improving the investment earnings on endowment and/or reserve funds by Taylor and Greenway (1985).

* A discussion by Luskin and Warren (1985) of several relevant factors that should be considered by college officials when creating an institutional development team.

FINANCING COMMUNITY COLLEGES

Annotated Bibliography

1981-1985

Adams, F. G. (1981). Financing the college in the community. Educational Resources Information Center - ERIC Document ED 212331 (pp. 1-15).

Off campus community service programs are one of the fastest growing segments of many community colleges. In this article, the author describes the various models used by colleges to administer and finance these programs, identifies the shortcomings of those models, and proposes an alternative model that offers numerous benefits to community colleges.

The model proposed by Adams establishes a central office for community services that coordinates the financial and budgeting affairs of the program, contracts with the college's academic department to teach the off-campus courses, maintains enrollment and other records, and coordinates marketing efforts. Under this model, the academic departments maintain quality control over the instructional aspects of the program.

Allen, R. (1984). New approaches to incentive financing. New Directions for Institutional Research, 43, 45-65.

Until recently, the discussion of financial incentives has been foreign to higher education - something more appropriate for the private sector. However, current economic conditions are resulting in this subject being discussed in relation to state funding of colleges and universities.

In this article, Allen describes five funding models that demonstrate varying degrees of financial incentives.

1. Central Control Model - This model is characterized by a high level of centralized control. The state controlling board simply directs that specific activities be performed, certain expenditures be made, or certain results obtained. The nature of the incentive is negative - do this or your budget will be reduced. This model is seldom, if ever, used in higher education.

2. Allocation Budget Formula Model - Funding is based upon certain specific activities or measures (e.g. student FTE, credit hours, program cost, etc.). Incentives relate to receiving additional funding for increasing the volume of the units of measure. This form of financing is common in higher education.

3. Outcomes Oriented Model - This model emphasizes success over everything else. For example, a state might provide funding based upon the number of points institutions' students improve on a standard test or the number of students finding employment within the state. The most dangerous aspect of this approach to funding is that it encourages college leaders to stress the accomplishment of the specific results to the detriment of everything else.

4. Good Management Practice Model - This is similar to the Outcomes Oriented Model except funding is allocated for the performance of specific management functions. For example, additional funding may be allocated to colleges that create programs to accumulate information on students who drop-out, transfer, or graduate.

5. Full Responsibility Model - This model is opposite of the Central Control Model. Under this model, the state allocates funds and leaves all decisions related to their use to the college. As with the Central Control Model, this funding method is seldom used in higher education.

This article concludes by providing specific higher education examples of the Outcomes Model, the Good Management Model, and the Full Responsibility Model.

Breneman, D. W. and Nelson, S. C. (1981). Financing community colleges: The Brookings Study. Community and Junior College Journal, 51, N8, 14-18.

This article is a report on the Brookings Study (1981) related to the financing of community colleges.

According to the study, community colleges most likely face a future of slow growth, declining (real dollar) budgets, shrinking public support, and low political clout. In addition, the authors project that: (a) many community colleges will increase tuition and fees, (b) state interest will remain primarily in transfer and vocational programs, and (c) local support will increase to compensate for declines in state allocations.

Other major findings of this study revealed the following:

1. Most current state financing formulas were developed when the typical community college student was a full-time day student in a college transfer or two-year vocational program. Today, that student

profile is no longer valid; thus many of the formulas currently used may be outdated.

2. A review of the various state funding models reveals that no single model for financing community colleges is dominant.

3. Disputes over financing formulas often disguise disagreements over purpose and mission.

4. Many community college leaders want their institutions to become comprehensive community based centers. Funding, however, is rarely available to fully accomplish this goal.

5. Economic efficiency favors a combination of state and local funding; however, most experts agree that greater equity can be achieved thru full state funding.

6. To improve access, tuition at community colleges should be kept low. The authors suggest that it not exceed one-third of current operating cost.

7. Funding for non-credit courses should come from user fees or the local government, not the state.

8. Financing formulas should be revised to reflect changing enrollment patterns.

9. Fixed cost and variable cost, as well as average cost, should be considered by state officials in developing funding formulas.

Brinkman, P. T. (1984). Formula Budgeting: The fourth decade. New Directions for Institutional Research, 43, 21-43.

In this article, the author briefly reviews the history of formula budgeting, determines the criteria for evaluating formulas, examines the strengths and weaknesses of this approach to financing higher education, and examines new strategies in this area.

The use of formulas dates back to 1951, when California, Indiana, Oklahoma, and Texas incorporated them in their state's allocation policies. By 1982, twenty-six states indicated that their appropriations were mostly formula based and three additional states reported using formulas on a limited basis.

According to Brinkman, an effective formula should: (a) contain only factors that are quantitatively definable, (b) facilitate comparisons with other institutions within and outside the system, (c) be broad-based, recognizing needs in various functional areas, (d) provide equitable treatment to institutions of varying levels of enrollment and maturity, and (e) be appropriate to the activities being funded. In addition, a good formula must be clear and understandable, involve a relationship to program quality, and inject objectivity into the budget process.

Most college officials agree that formulas offer numerous advantages. First, they remove uncertainty from the budgeting process. Secondly, they assist state board members and legislators in making comparisons between institutions. Thirdly, they make the

budget process more equitable. Fourthly, they enhance the uniformity and ease of budget preparation and presentation.

Weaknesses often associated with formulas include: (a) they do not reflect the non-quantifiable elements of educational activities, (b) formulas cannot make tough policy decisions, (c) they often ignore economics of scale (i.e. fixed versus variable cost), (d) formulas tend to encourage policy makers and others to focus their attention on current operations, at the expense of long term planning, and (f) finally, they tend to have a leveling effect on college funding, thus ignoring quality issues.

New concepts in the use of formula budgeting include decoupling and buffering. Decoupling involves identifying functional areas that are under one budget formula, separating some of these areas, and creating a separate formula for each. Buffering involves the creation of a measurement zone wherein funding will not increase or decrease unless the item of measure exceeds (plus or minus) a predetermined buffer amount. For example, a zone of two percent could be established for formulas involving student head count. Under this situation, budget allocations would not change unless enrollments increased or decreased more than two percent.

Borah, J. D. (1984). A proposal for the funding of higher education. The College Board Review, 131, 2-3, 36, 37.

Borah proposes that public higher education be funded not with tuition, local taxes, state revenue, or student aid, but by a tax on

the earnings of former college students. This concept is based upon the philosophy that college trained individuals earn more than average workers and are affected less negatively by recessions and other economic conditions; thus, they should repay the state for their subsidized education.

This concept is, in reality, no different than existing laws that assess citizens who benefit from public sponsored capital improvements (e.g. sidewalks, sewers, etc.) or other governmental activities. Borah indicates that the amount of the tax would be based upon: (a) the number of years a person attends college, (b) the percent of tax as established by the legislature, and (c) the student's annual income in excess of the state's average income for all wage earners.

Example: Person X spends 4 years in college

The education tax rate is 1%

X's annual income = $30,000

State's average income = $20,000

Tax = ($30,000-20,000) X 1% X 4 = $400

Borah believes that such a tax is equitable and would, within a few years, drastically reduce state allocations to higher education; thus freeing state monies for other social needs.

Gilli, A. C. (1982). Public two-year college funding and program patterns. Community/Junior College Quarterly of Research and Practice, 6, N3, 203-215.

In this article, Gilli describes the results of a national survey of state directors of two-year colleges. The purpose of the survey was to obtain information about community college funding, costs, and program patterns.

The survey revealed that community colleges obtain revenue from four basics sources - state allocations, local governmental units, tuition, and other sources (federal funds, contract training, fees, etc.). The study indicated the following average revenue patterns:

A.

Source of Revenue	Avg. Budget %	Budget Range
1. State allocation	58%	100% - 21%
2. Local support	17%	49% - 0%
3. Tuition	15%	35% - 0%
4. Other	10%	40% - 0%

B. The national community college average "cost per credit hour" amounted to $92 at 30 credit hours per year and $115 at 24 credit hours per year.

C. Approximately 49% of all community college students are involved in occupational programs. Surprisingly, Arkansas reported that only 31% of its two year students were enrolled in occupational programs.

Kaneklides, A. L. (1985). Cost accounting for decision makers. New Directions for Community Colleges, 50, 21-31.

In this article, the author defines cost accounting, delineates its role in higher education, and discusses the allocation of direct and indirect costs to individual departments and programs.

According to Kaneklides, cost accounting involves the gathering of data and information from the various areas of the college for the purpose of enabling management to review alternative options and make decisions. Cost accounting provides presidents and other college officials with answers to such questions as: "What are the costs of changing course scheduling or course offerings? or "What should it cost to add another academic program?" In addition, an effective cost accounting system facilitates the comparisons of actual to budgeted costs, thus identifying potential financial problem areas that warrant management review.

Kerr, C. (1985). Federal era has ended for colleges; governors now the key. The Chronicle of Higher Education, April 5, .

According to Clark Kerr, colleges and universities will have to look to the states instead of the federal government for funding for the next 30 years. During this time, federal government officials will be too occupied with budget deficits and national debt issues to focus their attention (or money) on higher education. Kerr believes that college officials should begin immediately to develop a strong relationship with their state's governor and major legislators. In

addition, colleges should attempt to improve their image in the eyes of the general public. Such activities are essential if colleges are to obtain a fair share of their state's revenue.

Keyser, J. S. (1984). Budgetary decline: Asking the right questions. Community College Review, 12, N1, 32-35.

In this article, Keyser identifies several critical questions that community college leaders must ask about their college and its programs during periods of budgetary decline.

1. What should be the college's mission and priorities? This question must be answered before any other questions can be addressed. Keyser suggests that presidents appoint a task force to analyze their college's strengths and opportunities and recommend changes in the current mission statement.
2. What is the current and projected student demand for each academic program?
3. What is the employment outlook for graduates of each program?
4. What percentage of graduates in each program found employment in that area?
5. What are the enrollment projections for each program?
6. What are the cost factors (e.g. faculty, equipment, etc.) necessary to support each program?
7. What is the current quality level of each program?
8. What programs are necessary to comply with federal or state regulations?

9. What educational purpose (transfer, vocational, community service, etc.) does each program serve?

Based upon answers obtained to these questions, tough financial decisions can be made in relation to maintaining, enhancing, reducing, or eliminating programs.

Leslie, L. L. and Hyatt, J. (1981). Higher Education Financing Polices: States/Institutions and Their Interaction. Tucson, AZ: Center for the Study of Higher Education.

In this monograph, Leslie and Hyatt summarize material presented at a conference on higher education financing. Attending the conference were college and university leaders, state governing board members, and state agency employees. Major conclusions reached during this conference included:

1. State appropriations to higher education will decline as enrollments stabilize or fall.
2. College leaders should begin immediately to examine their institutions and develop plans for reallocation and/or reduction.
3. States need to review their financing formulas in relation to the changing enrollment patterns.
4. College officials, legislators, and state board members need to develop a better understanding of college and university fixed, variable, and marginal cost.
5. Legislators, state boards, and the general public will, in the future, require institutions to truly justify their budget requests.

In anticipation of this, colleges and universities should be prepared to offer specific details about program cost and, more importantly, details as to the benefits of each program that accrue to the students and the state.

Luskin, B. J. and Warren, I. K. (1985). Strategies for generating new financial resources. New Directions for Community Colleges, 50, 73-85.

In this article, the authors discuss the interaction that must take place between the development office, the business office, and institutional leaders in creating an effective development team. Also, information about (a) establishing a foundation, (b) soliciting funds from alumni, (c) developing a planned giving program, (d) soliciting corporate donations, and (e) pursing grants is provided.

According to Luskin and Warren, the most elusive area of fund raising is in the area of corporate giving. Several rules to keep in mind when soliciting corporate gifts include:

1. Make sure you have some information about the company and person with whom you are meeting.
2. Most executives do not like long meetings; therefore, get to your point.
3. Dress meticulously for such meetings. No one wants to be involved with someone who does not appear successful.
4. Be honest in making your presentation and answering questions. If prominent individuals find out you have misled them, you will lose

not only their respect but also the respect of other individuals with whom they are in contact.

5. Read a good book on lobbying.

Mortimer, K. P. and Taylor, B. E. (1984). Budgeting strategies under conditions of decline. New Directions for Institutional Research, N43, 67-83.

This article identifies factors that should be considered by colleges in their attempts to reallocate or reduce costs during periods of inadequate revenues.

According to Mortimer and Taylor, higher education faces a future of declining enrollments and reduced tax support. In addition, many institutions have, over the past twenty years, created academic staffing patterns that no longer match the demands of current students. Such trends are easily evidenced in the major shift in students from liberal arts to business courses.

In addressing these problems, many college leaders have implemented across-the-board funding cuts. While such a policy is easy to implement and appears, on the surface, to be fair, it is often inappropriate and may cause considerable harm. First, such cuts assume that the original budget was equally distributed. This may not be the case, as some operational areas may be better able than others to absorb cuts without impacting quality. Secondly, across-the-board cuts often result in quality programs becoming average and average problems becoming weak. Thirdly, initiative

often disappears as across-the-board cuts provide no reallocated funds for new programs or ideas.

In lieu of across-the-board cuts, the authors recommend that college leaders:

1. Re-examine their mission and establish new priorities based upon current and projected enrollments and student needs.
2. Develop the technical capability to effectively analyze the cost patterns of their various programs.
3. Develop an effective, yet fair, method to make reallocation and retrenchment decisions.

The authors conclude the article by discussing a number of allocation strategies used at specific institutions.

Nazari - Robati, A. and Zucker, J. D. (1981). Resolving the financial crisis in America's rural community colleges. Community College Review, 9, N2, 48-51.

This article reviews some of the funding problems faced by America's rural community colleges (i.e. those colleges that are located in areas with a population under 100,000 and serve a broad geographic area). Many such institutions have unique financing problems. First, rural community colleges normally have little political influence and thus cannot garner much federal support. Secondly, the low tax base of many rural areas limits the support from that source. Thirdly, the low socioeconomic condition of the typical community college student prevents large increases in

tuition. Therefore, the only significant source of funding for rural community colleges is the state government.

Most states allocate funds to its colleges and universities based upon one of four models: (a) negotiated budget, (b) unit rate formula budget, (c) minimum foundation or equalization budget or, (d) cost based budget. States often incorporate numerous formulas into these models. The most typical formulas include (FTSE), full time student equivalent, (FYES), fiscal year equivalent student, (FTE), full time equivalent, and/or (ADA), average daily attendance. According to several studies, such methods often translate into disadvantages for the rural community college.

In lieu of these models, Nazari-Robati and Zucker recommend that state officials allocate funds to colleges based upon a differentiated flat grant. Under the differentiated flat grant, funds would be based upon FTE; however, as the number of students increased, the funds per FTE would decrease. For example, a flat grant of $700 per student may be allocated for the first 1,000 students, $500 for the next 500 students, and so forth. This method would ensure that smaller community colleges (that often have limited alternative funding sources) receive extra funding to cover higher operating cost and/or expand their programs.

Robinson, D. K. (1985). Federal tax policy and higher education: Assessing recent developments. New Directions for Institutional Research, 45, 27-43.

Changes in federal tax policy can have significant implications for higher education. Robinson indicates that college officials should be aware of tax policy changes on private donations, corporate contributions of equipment, tax exempt financing (i.e. revenue bonds), and unrelated business income. Based upon an awareness of these issues, colleges can lobby legislators to introduce and/or support tax changes that are more favorable to college programs.

Examples of major tax law implications related to higher education include:

1. Changes in the law related to the marginal tax rate can significantly affect individual donations to higher education.
2. Liberal depreciation allowance provisions, coupled with a limit on corporate donations, can serve to discourage corporations from donating equipment.
3. Specific tax provisions that encourage donations for research may inadvertently discourage donations for general education.
4. Tax laws can serve to facilitate or hamper the issuance of revenue bonds.
5. General tax laws designed to protect private businesses from unfair competition by tax supported institutions (e.g. a college that operates and markets its printing shop) can serve to limit college revenue.

Robinson indicates that colleges should consider tax law implications in any financial or funding analysis.

Stumph, W. J. (1984). Financing community colleges - The several ways. Educational Resources Information Center - ERIC Document ED252247 (pp. 1-21).

In this document, the author briefly describes the funding methods used by states with large community college systems and states with few community college districts. Next, the paper identifies certain elements of funding formulas that, in the author's opinion, offer advantages to community colleges and the elements of state financing that have disadvantages.

Stumph, W. J. (1985). Auxiliary and Service Enterprises. New Directions for Community Colleges, 50, 65-71.

This article describes several management issues that must be addressed for a college to enhance its revenue through auxiliary services. According to Stumph, colleges should: (a) implement internal accounting controls to protect their cash, inventories, and other assets from theft, shoplifting, and employee dishonesty; (b) develop cost accounting systems so that all cost (direct and indirect) can be built into the price of the products or services being sold, and (c) provide staff development programs to enhance the management skills of auxiliary department managers.

Taylor, C. E. and Greenway, D. (1985). Managing and investing funds. New Directions for Community Colleges, 50, 87-93.

Community colleges that have endowments and/or reserves should also have a well defined investment program. In this article, the authors identify specific issues that should by addressed by community colleges in developing an investment policy. First, the college should create an official investment document that includes: (a) a statement as to the purpose of the policy, (b) specific goals of the investment program (e.g. to earn a five percent annual return above the annualized rate of inflation), (c) a statement as to the amount of risk that is acceptable in an effort to achieve the earnings goal, and (d) a listing of any investment restrictions that are to be placed on the fund manager. Secondly, the college should choose an investment specialist to manage the fund. Thirdly, an employee must be chosen to be the college liaison with the investment manager. Finally, the college should establish reporting requirements and procedures for changing the policy's guidelines.

Taylor, T. (1985). The state role in financing community colleges. Community College Review, 13, N2, 43-53.

A common goal of community colleges and state governing units (i.e. legislators, governors, and boards) is to find a workable model for funding the two-year colleges. Unfortunately, according to Taylor, scholars have not, to date, proposed a common model that the various states could follow. Most scholars indicate that states have

varying concerns, constraints, and conditions - thus the search for a common model is pointless. Despite this view, Taylor, in this article, offers a community college funding model that he believes could be generalized to the various states.

Taylor indicates that an optimal funding model should: (a) recognize the need for state fiscal assistance while maintaining institutional uniqueness and as much local authority as possible, (b) base funding amounts on actual program cost, (c) encourage federal and private funding, but do not rely on them, (e) differentiate between courses that benefit society from courses that benefit the individual and/or industry. (f) minimize educational disparities caused by local income or tax base variations between districts, (g) promote and reward quality, and (h) maintain an open environment that insures the public's educational concerns are being met.

Based upon these goals, the following recommendations are offered:

1. Community colleges should present their cost in twelve separate categories. These twelve categories should consist of four general educational categories - general, liberal/transfer, vocational, and remedial. Within each category, programs would be divided into three cost grades - high cost, medium cost, and low cost.
2. The unit for determining the state budget amount would be based upon standard credit hours (SHC) offered by the college.

3. The total state allocations to a community college would be based upon the number of SCHs in each of the twelve categories multiplied by the approved funding amount for each cost grade.

4. Tuition, as part of this model, would not have to exceed 20% of college operating costs.

5. A state trust fund should be developed for rewarding community colleges that demonstrate improvements in quality.

The model also includes provisions for equalization, remedial programs, and audits.

Woodbury, K. B. (1983). Fair share of funding: Unmet goal for colleges. Community and Junior College Journal, 53, N5, 22-25 and 28.

Community colleges have been one of the most cost effective sectors of higher education. Surprisingly, lawmakers have responded to this fact by consistently underfunding them.

In this article, Woodbury examines this issue and compares public and private support for community colleges to the support provided to other higher education institutions.

In the fall of 1981, public community colleges enrolled 47 percent of all undergraduate students in the United States. Despite this fact, funding from state and local units represented only 27 percent of the funding provided to public four year colleges. Within the two-year college category, public colleges had to operate with 63 percent of the per capita revenue of the private colleges.

Community colleges not only receive less than their fair share of tax funds, they also: (a) receive a smaller share of federal and state grants than do the public four-year colleges or private two-year colleges, and (b) receive less private sector donations than do other institutions.

Based upon these facts, Woodbury suggests:

1. State officials examine the level of tax funding that is channeled either directly or indirectly to private college in relation to the public colleges and ascertain if legislation is needed to correct the inequities.
2. Community colleges become more aggressive in soliciting: (a) private sector donations and, (b) support from local and state lawmakers.

Yarrington, R. (1981). Money and mission. Community and Junior College Journal, 51, N8, 19-21.

This article is a report on five regional roundtable discussions of the Brookings Study on the Financing of Community Colleges. Included in the discussion were community college presidents, state legislators, state budget directors, state educational board members, and representatives of the Brookings Institute and the AACJC.

The majority of the participants agreed that, during the next several years, the condition of the economy would be a dominant factor in determining how community colleges will be financed and the availability of finances will influence the mission of most

institutions. One fundamental problem revealed by these discussions was that many legislators understand the purpose and mission of community colleges but do not fully understand their state's funding formulas. State budget officers, on the other hand, understand the details of financing but often are confused as to the mission and goals of their state's community colleges.

Based upon input from the various participants, the author identified the following trends related to community college financing.

1. During the next several years, state allocations will, at best, allow community colleges to keep up with inflation.
2. Community colleges will have to establish priorities and consider reducing or eliminating weak programs.
3. College leaders should be aware of the tendency of other types of educational institutions to take on community college functions when they are searching for new revenue.
4. Transfer functions and vocational education will be viewed as priority items by state legislators.
5. User fees will have to increase if certain community service programs are to survive.

Financing Community Colleges

1986-1991

A review of the literature related to community college financing between 1986 and 1991 reveals considerable interest in the development of new revenue sources, identification of methods to control costs, and infomation aboust state funding issues.

The growing interest in new revenue sources may be due, in part, to the realization by many community college leaders that future state and local funding patterns will remain relatively low in relation to college needs and various political and economic factors will limit an institution's ability to raise tuition. Therefore, if college leaders desire to maintain the quality of their college's existing programs and/or expand into new education or operation areas, they must identify and develop new sources of revenue.

Areas that provide opportunities to increase community college revenues include:

Foundations - A foundation offers community colleges an excellent vehicle to solicit and accept donations. In ***Diagnosing a Foundation***, Evans (1986) provides college leaders with a step-by-step approach for establishing a foundation. Major steps identified by this work include: (1) obtaining Internal Revenue Service permission to accept tax deductible donations, (b) identifying specific objectives for the money to be collected, (c) appointing a staff member to manage the activities of the foundation, and (d) providing seed money to support and promote the foundation's operations.

Auxiliary services - Most colleges offer various types of auxiliary services, such as bookstore and print shops, for their students. In ***Entrepreneurship in the Community College: Revenue Diversification***, Brightman (1989) suggests that many community colleges can increase their revenue by expanding these operations. Colleges could, for example, increase their bookstore revenue by offering a wider variety of products and extending sales to the general public.

Contract training - Most community colleges have conducted contract training programs for several years; however, the income generated by these programs often barely covers operating expenses. Thus, contract training offers another opportunity for community colleges to enhance their revenue. ***In Contract Training: Public and Private Sector Models***, Lestina and Curry (1989) present a model that identifies the steps needed to create and execute a training contract.

Planned Giving - The donation of real estate, securities, and life insurance bequests through a planned giving program that provides benefits to both the donor and the college is another promising area for increasing college revenue. Edwards and Tueller (1991) in ***Planned Giving: The Future of Fund Raising***, define planned giving, describe the advantages of such a program, and identify the steps necessary to be successful in this area.

Non-cash donations - Conrad, Davis, Duffy, and Whitehead (1986), in the article ***What Can Community Colleges do to Increase Private Giving***, provide a step-by-step approach for implementing a non-cash giving program. These authors emphasize the benefits

from donations of equipment, facilities, and services as well as donations of cash.

In addition to raising new revenue, community colleges must also attempt to control costs. College leaders must not assume, however, that controlling costs is synonymous with implementing hiring freezes, deferring maintenance, restricting travel, and other similar measures. While such actions may provide some short-term relief, they rarely provide long-term solutions and may undermine the morale of faculty, staff, and students. In lieu of these actions, Angel and DeVault (1991), in ***Managing McLean***, suggest that community college leaders adopt a proactive management approach wherein they strive to identify the true financial problems of the college and develop a long-range plan for solving those problems. As part of such an approach, Temple (1986) recommends, in ***Weak Programs: The Place to Cut***, that colleges leaders review each current educational and operational program in relation to its future value to the institution. Based upon this review, college leaders can identify programs that should be reduced, expanded, eliminated, or added.

A third financing area that continues to be of major concern to community colleges is formula funding. ***In Community College Formula Funding: A Policy Analysis Framework***, Fonte (1987) describes numerous problems associated with formulas. Possibly the most significant of these problems relates to the fact that many formulas operate in a linear manner and thus fail to recognize the fixed versus variable elements of college costs. This fact often results in colleges being over funded during periods of rising

enrollments and under funded when enrollments decline. Finally, in ***State Funding Formulas for Public Institutions of Higher Education***, McKeown (1989) indicates that recent trends in state funding include the incorporation of incentives into the formula process. Such incentives normally attempt to link appropriations to such conditions as improvements in student performance or institutional involvement with state priorities.

Other relevant subjects included in this section include:

- A discussion of student financial aid issues by Coomes (1988).
- A review of the problems associated with prepaid tuition plans by Layzell (1988).
- A review of state tuition policies by Mullen (1988).
- An analysis of the various misconceptions related to the cost of attending college by Parnell (1990).
- A review of community college funding in the Southern Region of the United States by Hale and Wright (1988).
- Additional discussions of fund raising by Blong and Bennett (1991), Bock and Sullins (1987), and Walters (1987).
- An analysis of various funding issues by Breneman and Nelson (1989); Fonte (1991); Gage (1991); Hines (1988); Honeyman, Williamson, and Wattenbarger (1990); Romano (1986); and Wattenbarger and Vader (1986).

FINANCING COMMUNITY COLLEGES

Annotated Bibliography

1986-1991

Angel, D. and DeVault, M. (1991). Managing McLean. Community, Technical, and Junior College Journal, 62, N1, 26-29.

Most states have experienced significant shortfalls in tax revenue during the past several years. These shortfalls have resulted in budget cuts at most government supported institutions, including community colleges. According to Angel and DeVault, many community college leaders have addressed this problem by: a) instituting hiring freezes, b) making across-the-board program cuts, c) increasing tuition and/or fees, d) increasing class size, e) curtailing services, f) delaying capital expenditures, and g) instituting long-term productivity studies. Such actions, while providing some short-term relief, may not have real long-term benefits, and may even cause other problems, such as increased stress among faculty and staff and a loss of management creditability.

In lieu of the above, the authors recommend that community colleges consider implementing; a) telephone registration - a cost saver due to the need for fewer workers, b) computerized adaptive testing - a cost saver compared to current methods, c) televised instruction - both a revenue enhancer and cost saver, and d) contract training - an opportunity for community colleges to sell their expertise.

Finally, community college leaders should adopt a pro-active response to the problem of finances. A pro-active style of management requires that presidents and other leaders: a) monitor the political, social, and economic events that affect the financial

affairs of their institutions, b) develop plans to address the problems or opportunities created by these events, and c) act in a manner that takes into consideration both short-term and long-term issues.

Blong, J. and Bennett, B. (1991). Empty wells: Resource development in tough times. Community, Technical, and Junior College Journal, 62, N1, 30-33.

Community colleges may never return to the golden era of the 1960's, when there was a generous supply of money. Instead, the 1990's offer a very competitive environment where community college leaders must aggressively pursue all available fund raising opportunities. This change in conditions is a direct result of the numerous cutbacks in federal, state, and local tax support for all higher education.

As part of the solution to funding problems, Blong and Bennett recommend that community colleges create an aggressive resource development program. Four policies that are critical for achieving success in this area are as follows:

1) Resource development must be viewed as a long-range investment, one which cannot be built in a short time frame.

2) Resource development must maintain a strong link to central planning.

3) External funding should not be sought nor accepted for opportunities that are not consistent with the institution's mission.

4) The college must have the resources (physical plant, human, etc.) to implement the activities for which funding is sought.

5) The president (CEO) must be committed to resource development and actively support the program.

6) The resource development officer must be an integral part of the management team with corresponding visibility and authority.

Bock, D. E. and Sullins, W. R. (1987). The search for alternative sources of funding: Community colleges and private fund-raising. Community College Review, 15, N3, 13-20.

During the past several years, state support for community colleges has generally declined, yet few community colleges appear eager to abandon the wide variety of programs which were created when funding was more plentiful. Since it is unlikely that future funding, from either the state or local level, will be as generous as in the past, presidents and other community college leaders must find new sources of revenue.

According to the authors, community colleges have several options. First, they may create or expand auxiliary services that provide profits to the institution. For example, a community college may sell the services of its printing press to local businesses. It should be noted that such activities may draw complaints from local business leaders if they view the operation as unfair competition

(i.e. claim that the college is competing with private enterprise while being subsidized with tax dollars). Secondly, the college may attempt to offer more "for fee" services to students. Thirdly, the colleges may create a private foundation and solicit donations from local citizens, alumni, and businesses. It is this area in which Bock and Sullins believe that community colleges can be most successful in raising substantial revenue.

The use of foundations by community colleges can pose several questions.

1) Does it damage the integrity of an institution to "beg" for money?

2) Will state legislators view an institution's successful efforts in private fund raising as an opportunity to further decrease public allocations?

3) Are there types of gifts that a community college should not accept?

4) Are there certain donors from which community colleges should not accept any type of donations?

Breneman, D. W. and Nelson, S. C. (1989). The community college mission and patterns of funding. In J. L. Ratcliff (Ed.) ASHE Reader on Community Colleges, (pp. 101-108). Center for the Study of Higher Education. The Pennsylvania State University.

This article discusses several controversial issues related to public funding of community colleges.

Almost everyone will agree that funding for the nation's community colleges should be jointly borne by the state governments, local governments, and the students attending the institutions. Beyond this general agreement, however, many public officials differ on the specific details. For example: a) should a state funding plan be simple or complex, b) should it involve state funding only or should there be state and local sharing, c) should the state ignore or attempt to offset differences in the wealth of the local districts, d) should program cost differences be considered or ignored, e) should the state allow the institutions to individually adjust tuition or should the state mandate that tuition cover a specific portion of the cost, f) should both credit courses and non-credit courses be supported by tax money, g) should the formulas emphasize incentives for efficient management, and h) should the state have strict line item control over expenditures or should local officials have discretion to shift funds between classes of expenditures?

To address these issues states have developed a wide variety of funding methods. Florida, for example, provides funding for its community colleges almost exclusively from the state government, yet a significant level of local control over the use of these funds is allowed. Texas, on the other hand, provides the districts with the physical plant and maintenance and pays for instructional cost. Beyond these levels of funding, each district is independent in its raising and use of local funding. Finally, Illinois utilizes funding

formulas that incorporate inflation, growth, program cost differences, equalization, and grants.

Brightman, R. W. (1989). Entrepreneurship in the community college: Revenue diversification. New Directions for Community Colleges, 68, 57-66

According to Brightman, community colleges can no longer wait for state governments to resume the favorable funding levels that existed several years ago. Instead, colleges must develop new revenue sources if they hope to maintain the quality and quantity of their programs.

In this article, the author indicates that community colleges should follow the example established by businesses and expand their operations both vertically and horizontally. For example, community colleges might expand their bookstores to offer a wider variety of goods (e.g. clothing, entertainment items, etc.) that would be of interest to their students and/or expand their underutilized food preparation facilities to cater food to interested organizations.

The article also discusses the difference between related and unrelated income as it applies to higher education and reviews the tax implications of each.

Conrad, L.; Davis, B.; Duffy, E.; and Whitehead, J. (1986). What can community colleges do to increase private giving? AACJC Journal, 57, N2, 34-37.

Shrinking federal and state dollars will force many community colleges to solicit private giving. In order to maximize private giving, community colleges should seek not only cash donations but also donations of needed equipment, facilities, real estate, and services. For example, local businesses may be willing to donate office or computer equipment, local professionals may be willing to teach evening courses without pay, or an individual may be willing to donate some vacant office space which could be used by the college.

To successfully implement a non-cash private giving program, community colleges should:

1) Create a list of all corporations, professionals, and major real estate owners in the service area.

2) Identify the specific non-cash needs of the college (e.g. space, equipment, services, etc.).

3) Match specific needs to a potential source.

4) Develop a rational reason that a non-cash donation to the community college would benefit the prospective giver.

5) Contact the prospective giver and make a professional presentation.

6) When a donation of property or services is received, provide tasteful and suitable publicity for the donor.

Coomes, M. D. (1988). Student financial aid. In A. L. Rentz and G. L. Saddlemire (Eds) Student Affairs Functions in Higher Education. (pp. 155-184) Charles E. Thomas Pub. Springfield, IL.

Student financial aid plays a major role in paying tuition for a significant number of students, and thus, is a major source of revenue for community colleges. In the 1986-1987, academic year over $20 billion accrued to the nation's colleges and universities via such programs. In this chapter, Coomes provides a historical perspective as to the government's involvement in student aid, identifies the various types of aid, and discusses current trends in this area.

The first major program of federal aid to students was the National Youth Administration which existed between 1935 and 1943. This program provided over $93 million to 620,000 students. The second major federal initiative in student aid was the Serviceman Readjustment Aid of 1944 (commonly known as the G.I. Bill). This program was designed to reward the veterans of World War II and help assimilate them back into the economy. Another federal program which provided student aid was the National Defense Act of 1958, which emphasized aid for students entering the field of teaching, science, mathematics, or foreign languages. In 1965, the Higher Education Act was passed, which provided student aid to many of the nation's underprivileged. In 1978, the Middle Income Assistance Act extended participation in federal student aid programs to middle class families.

State governments are also involved in providing student aid. Traditionally, states have sponsored scholarships, student employment programs, and loans (such as the guaranteed student loan program).

The most common types of student aid are: a) loans, which often carry subsidized interest rates. b) grants, which do not require repayment and are normally granted based on financial need, merit, and/or service (e.g. veterans benefits), and c) student employment.

The most prevalent trend in the area of student aid is the government's change in emphasis from non-repayable grants to loans which must be repaid by the student with interest. This change has been a direct result of the financial crisis and large budget deficits experienced at almost all governmental levels. Many experts believe that this change will discourage many low income and minority students from attending college, thus having a negative effect on individuals (who cannot obtain an education), on institutions (who have fewer students) and on society (which must function with a less educated citizenry).

Edwards, J. E. and Tueller, A. B. (1991). Planned giving: The future of fund raising. AACJC Journal, 62, N1, 40-43.

Planned gifts include any gifts that are large enough to require the assistance of one or more of the donor's financial advisors - i.e., attorney, accountant, financial planner, stock broker, or certified life underwriter - to consider and conclude the gift.

Assets normally used in planned giving include: real estate, securities, and insurance policies. According to Edwards and Tueller, community colleges should begin to establish planned giving programs.

An attractive aspect of planned giving is that, in many cases, both the donor and college receive benefits from the gift. For example, at Utah Valley Community College, a planned gift of corporate stock valued at $400,000 resulted in the donor receiving a $28,000 annual annuity for life and a $173,000 income tax deduction. The college received 40% of the funds immediately (remainder upon death of donor) and also used the full amount of the gift as a qualifier for a Title III Matching Endowment grant.

In order to develop a successful planned giving program, community colleges must: a) become acquainted with the laws regarding planned giving, b) develop professional contacts with accountants, attorneys, and other individuals who work in this area, c) create a planned giving office, d) get the word out to faculty, staff, community leaders, and local financial professionals that the college is interested in accepting planned gifts, and e) be patient - a successful planned giving program takes time to mature and become fruitful.

Finally, community college leaders should remember that the vast majority of the world's wealth is in long term assets, the very type planned giving is designed to attract.

Evans, N. D. (1986). Diagnosing a foundation. Community, Technical, and Junior College Journal, 57, N1, 27-31.

Over 29 billion dollars are donated to American colleges and universities each year. In order for community colleges to attract a fair share of this money, institutional leaders must have an established foundation that is well organized with specific goals and objectives that are acceptable to prospective donors. Evans identifies several elements that are necessary for a community college foundation to be effective.

1) The foundation must obtain exemption from federal income tax under Section 501(c)(3) of the Internal Revenue code and be qualified to accept deductible donations under Section 509(A)(1) and 107(b)(1)(a)(iv). These efforts will ensure that earnings of the foundation will not be subject to taxation and that donors can take a tax deduction for their gifts. Institutions should consult with an attorney and accountant on these issues.

2) Specific goals and objectives (e.g. building projects, library acquisitions, special educational programs, or specific community service programs) should be established for the foundation. In addition, questions by prospective donors should be anticipated and proper answers developed. For example, why can't the described need be provided for within the existing budget structure?

3) The board of trustees should support the foundation via generous giving and active solicitation of community leaders during fund drives.

4) College and university leaders must be certain that adequate seed money exists for the foundation to become established. At a minimum, seed money is needed for staffing, office space, equipment, supplies, travel, and promotions.

5) Institutions should appoint a professional staff member responsible for the foundation goals. This individual should report directly to the president.

6) The foundation manager should consult with local financial professionals to develop deferred giving programs which are attractive to individuals with specific tax or estate situations.

According to the authors, the successful operation of a foundation can not only help generate needed funds, it can also help improve the public image of the community college.

Fonte, R. W. (1987). Community college formula funding: A policy analysis framework. Community College Review, 15, N2, 5-13.

This article provides a brief overview of the concepts and issues related to formula funding of community colleges. According to Fonte, a well developed funding formula will allow for the recognition that institutions have varying missions, thus differing financial needs; identify and encourage specific outcomes such as student performance and managerial effectiveness; be perceived as a fair method for allocating funds to the different institutions; and effectively link enrollment to funding.

Problems arising out of formula funding include:

1) Equity - no matter how complex or complete the formula(s) become, certain decisions by state legislators, governors, and agencies must be based on judgement and values. Thus formula funding at its best is still open to questions of fairness.

2) Local support versus state support - issues of state support can be complicated by the difference in property wealth between the different community colleges within a state. Fonte warns that state policy makers, when reviewing this issue must take into consideration the varying missions and related costs of the institutions. Failure to do so may result in a leveling effect that will destroy the diversity of the various institutions.

3) State support versus tuition - how much support should the state provide to an institution in relation to the tuition cost? Excessive tuition may discourage many low income or socially disadvantaged from attending college. Yet a tuition level that is too low results in the state taxpayers absorbing an unnecessarily high level of educational cost. Many experts believe tuition cost should be established to account for 15-30% of institutional cost.

4) Enrollment linkage and fixed cost - formulas must take into consideration the nature and extent of an institution's fixed cost (costs that do not change when enrollment increases or decreases). Failure to do so will result in unnecessarily high allocations during periods of student growth and excessive cuts during periods of student decline.

Finally, for formula funding to remain a valuable tool for fairly and effectively allocating state funds to community colleges, state officials and institutional leaders must work together to revise the formulas as economic, social, and political conditions warrant.

Fonte, R (1991). Financial governance patterns among two-year colleges. Journal of Education Finance, 16, 299-314.

This article describes a study of state financial controls over community, junior, and technical colleges. The purpose was to ascertain if a pattern of regulatory control exists among the states. The method used was a survey of the nation's 62 state systems of two-year colleges (some states, such as New York, have multiple systems).

The result of the survey revealed that there are three basic types of state regulations related to community colleges.

1) Type A - strong regulation via direct control (18 systems fell within this type, including Arkansas' community and junior community college systems)
2) Type B - strong regulation with indirect control (12 systems)
3) Type C - low regulation (16 systems)

The other 16 systems could not be conclusively placed within one of the three groups.

Systems with strong state level control normally allow their community colleges little flexibility in budgeting, purchasing, setting tuition levels, or establishing salaries.

Finally, as might be expected, states that provide a high level of funding to community colleges seem to exercise strong regulatory control.

Gage, M. C. (1991). Community colleges vie for scarce state funds as budgets tighten and enrollments increase. The Chronicle of Higher Education, May 1, A17-A18.

This article points out that many of the nation's community colleges are faced with a dual problem of rapid enrollment growth and declining state financial support. Enrollment growth at many community colleges stems from two sources; first, most four-year public colleges have raised tuition to the point where some students are deciding to attend less expensive two-year colleges; and second, high levels of unemployment across the nation has encouraged many individuals to seek additional training.

Despite the increases in enrollment, many lawmakers appear reluctant to reduce funding at four-year colleges and thus risk eroding their academic programs. Thus, community colleges are having to absorb more than their share of budget reductions. To change this trend, community college leaders must improve their public relations and ensure that policy-makers and the general public are aware of their past accomplishments, future potential, and needs.

Hale, J. and Wright, T. (1988). Funding among public education sectors in the southern region states. Journal of Education Finance, 13, 488-495.

Due to the financial limitations of most state governments, there is beginning to be increased competition between public schools, community colleges, and universities for state support.

Given the financial realities of the educational environment, the authors have raised a study question - are community colleges in the southern states receiving fair allocations of state funds compared to the public schools and universities?

Results of their study revealed the following.

Appropriations per student (all southern states)	1980-81	1984-85
K - 12	$ 2,143	$ 3,032
Community colleges	1,659	2,713
Public universities	3,094	4,460

Community College receipts as percentage of:	1980-81	1984-85
Public schools	77%	89%
Universities	54%	61%

Based upon the above, community colleges made significant gains between 1980 and 1985, in relation to the percentages of funds allocated to education.

Hines, E. R. (1988). State financial support for higher education in transition. Higher Education and State Governments - ASHE Higher Education Report No. 5, 47-55.

This article presents information as to the state's role in tuition pricing, student aid, and changes in state appropriation methods.

During the 1960's and 1970's, the prevailing view was that society benefited most from an educated citizenry. Accordingly, the federal and state governments responded with generous appropriations to the institutions and various forms of non-repayable aid to the students. In the 1980's, however, budget shortfalls and a change in government attitude (especially at the federal level) began to be demonstrated. Allocations to higer education became less, as a percentage of operating budgets, and student aid shifted from grants to loans. The author offers views from both proponents and opponents of this change.

Traditionally, states used one or a combination of the following approaches to higher education budgeting, a) providing dollars based upon the college's number of FTE students, b) incremental financing, wherein states negotiated a final budget with institutions based upon new programs and circumstances, and/or c) aid formulas that used historical cost, types of programs, levels of minority enrollees, and program mix. Now, however, more and more states are beginning to budget higher education based upon assessments of quality, measurements of outcomes, and the institution's progress in moving

toward activities/services that the states consider desirable behavior.

Honeyman, D. Williamson, M. L., and Wattenbarger, J. L. (1990). Community College Financing: Challenges For a New Decade. Research report for the American Association of Community and Junior Colleges (pp. 1-59), Washington, D.C.

This report is the latest in a series of survey reports by James Wattenbarger and Associates related to the issues of financing community colleges. This report provides a 37 state comparison of various elements related to revenue and expenditures at community colleges. In addition to providing statistical data, the authors offer an evaluation as to the major financial trends affecting community colleges.

Information in this report which may be relevant to community college leaders include:

Percentage of total education funding allocated to community colleges.

FL (nation's high)	WV (nation's low)
8.57%	1.08%

Sources of general operating expenditures:

	All Respondents
Sales tax	84%
Income tax	72%

Property tax	31%
Excise tax	56%
Lottery	47%
Other	19%

Source of funds for capital outlay:

	All Respondents
Local taxes/bonds	7 states
State taxes/bonds	22 states
Other	4 states

Expenditures for credit programs (per FTE)

NH (high)	VW (low)	AVG.
$6,827	$3,706	$3,887

In-district tuition/fee increases (as %) since 1985

NM (high)	AVG.
30%	14%

General conclusions reached by the authors are as follows:

1) Subtle increases in tuition do not seem to exert downward pressure on enrollments. Apparently, there is a marginal level to which tuition may rise with no contrary effect on enrollment and most states have not exceeded the margin.

2) Decreases in the level of state support has resulted in increased student tuition and fees.

3) The number of states using lotteries as a financing vehicle for higher education has increased sevenfold since 1988, (from 2 states in 1988 to 15 in 1990).

4) Most states are drastically reducing their support for non-credit courses.

Layzell, D. T. (1988). Pay now, pay later: Is prepayment of tuition the answer? Educational Record, 69, N3/4, 16-19.

Between 1981 and 1987, tuition levels for all public institutions grew on the average of 9.8 percent annually, compared with a 4.7 percent annual growth in inflation. Such increases have generated concern by many families and public officials as to the affordability of higher education. Several states have addressed this issue by implementing prepaid tuition plans. These plans allow purchasers to make a payment now to an institution, usually at a discounted rate, and attend the college or university tuition free at a later date.

While this plan is, on the surface, appealing to almost everyone, Layzell points out a major drawback to this type of financing for higher education. Usually, the cost of a prepayment plan is based upon an institution's projected tuition level. If these projections are low, the college could be faced with periods of inadequate funding. In this case, who should be expected to provide

the additional funding - the state government, new students, or the institution? If the state government has to absorb the additional cost, policy makers may be forced to raise income taxes or lower the level of funding to other state institutions. If new students, who did not have prepaid tuition, have to pay the extra cost via even higher tuition, many may be forced to forego a college education, thus raising the question of equitableness. If the institutions have to absorb the cost, they may be forced to make educational cutbacks that would not be in the long term interest of the college, state, or future students.

Layzell suggests that colleges and university leaders and state officials seriously examine these issues prior to implementing a prepaid tuition plan.

Lestina, R. and Curry, B. (1989). Contract training: Public and private sector models. In J. L. Catanzaro and A. D. Arnold (Eds.) Alternative funding sources. New Directions for Community Colleges, 68, 37-44.

An overview of a contract training model is provided with emphasis on the use of contract training as a method for increasing community college revenue.

According to Lestina and Curry, contract training has existed at community colleges for years; however, the revenue generated by these programs has normally only covered the expenses. Given the general decline in state and local support for community colleges, presidents

and other institutional leaders should consider contract training as a legitimate tool for raising revenue.

Specific steps for the creation of a training contract are as follows:

1) College representatives should meet with the company representatives to clarify the nature of the training needed.

2) Based upon the company's need, the college should identify its subject-matter experts.

3) Arrange for a meeting between the company representatives and the subject expert. Program content, assessment methods, and other relevant material should be discussed at this time.

4) Develop a training proposal, including an outline of training, dates, times, cost, and method of billing.

5) The proposal should be presented to the company and any mutually agreeable revisions made.

6) A contract should be signed.

7) The instructor should have an orientation meeting during which time he or she becomes familiar with the company, meets the supervisors, workers, and other appropriate personnel, and prepares training material.

8) Training should be conducted as agreed in the proposal.

9) The employees participating in the program should be asked to complete a written evaluation on both the program and instructor.

10) The company should be billed.

11) The college should follow-up with the company to ascertain if additional training is desired.

In addition to company training programs, community colleges should consider developing continuing education programs for local professionals as this also offers another source of revenue.

McKeown, M. P. (1989). State funding formulas for public institutions of higher education. Journal of Educational Finance, 15, 101-112.

In this article, McKeown provides a brief review of the history of state funding formulas related to higher education and describes the basic concepts of the process.

According to the author, the use of mathematical formulas as a basis for allocating funds to institutions of higher education began in the late 1940's, in Texas. By 1984, thirty-four states had adopted the concept. States normally adopt formula budgeting based upon the need to: a) fairly allocate limited resources, b) identify an adequate level of institutional funding, and c) provide institutions with predictability in funding.

Base factors most commonly used in formula calculations include: a) head count, b) number of positions, c) square footage or acreage, d) full-time equivalent students, and e) credit hours. Based upon the use of one or more of these factors, a state many allocate funds to an institution as a whole or allocate funds to specific program/function areas (i.e. instruction, research, public service,

academic support, student services, institutional support, operations and maintenance, scholarships/fellowships, or auxiliary enterprises).

Recent trends in the area of state funding include the use of explicit incentives in the formula process. Such incentives normally attempt to link appropriation to such conditions as: improvements in student performance, student/faculty ratios, or institutional involvement with state priorities.

- **Mullen, J. M. (1988). College costs and the state role in higher education funding.** Educational Record, 69, N3, 9-14.

Many students and their families are legitimately concerned about the increased cost of college tuition. In addition, many individuals do not understand their states' policies related to supporting higher education, thus adding to the confusion and frustration.

Concerning tuition fees, Mullen indicates that most institutions operate under one of three models.

1) Tuition rates are established to raise the money between projected financial needs and appropriated state funds. More than one-half the states use this model.

2) The state has an explicit policy related to tuition. For example, a state may specify that tuition fees equal 25% of educational cost. States using this model include: Connecticut, Florida, Georgia, Maryland, Minnesota, New Jersey, Tennessee, Virginia, and Wisconsin.

3) The state has a policy that determines the size of tuition fee increases. Such policies may link tuition increases to factors such as per capita income or other formulas. Arizona, California, Illinois, Kentucky, and Washington use this model.

During this era of rising tuition cost, states should make serious attempts to inform their citizens about how college tuition is established and the methods used by the state to fund its institutions. In addition, states should analyze college cost increases and insist that operating cost be carefully controlled.

Parnell, D. (1990). Some misperceptions about cost. Dateline 2000: The New Higher Education Agenda (pp. 255-286). Washington D. C.: The Community College Press.

This article addresses several misperceptions about the expenses of attending college, provides realistic data concerning institutional costs, and identifies several cost containment measures that have been implemented within the higher education environment.

American higher education has developed an image of being overpriced and beyond the means of many parents and students. According to Parnell, this is an incorrect image that has been created by (a) bankers (hoping to sell college saving plans) and (b) journalists who find a good story in reporting the high cost of attending a few elite institutions and portraying these conditions as being representative of all colleges.

While some private elite institutions are expensive (charging over $14,000 per year for tuition, room, board, etc.), public institutions offer their educational services for a much more modest rate. For example, a four year degree, encompassing two years at a community college and two years at a public university, typically costs $5,000 per year in total expenses; and four straight years in a 4-year public institution usually cost about $6,500 per year.

Although the cost of attending college is not as high as portrayed, it has increased over the past few years. Specific forces that have caused these increases include: (a) inflation - which has been approximately 20% higher for higher education than the general economy (6.3% vs. 5.2%), (b) the high cost of equipment - colleges are forced to maintain state-of-the-art equipment for teaching, administrative, and research purposes, (c) increased maintenance - due to years of deferring such expenses, and (d) increased student service cost - due to increased student demands.

In relation to cost constraints, Parnell describes several measures that have been implemented. One of the most innovative measures was at Lane Community College (Oregon) that simplified a cumbersome purchase order system by issuing credit cards to selected staff members for purchases under $100. The new system saved staff time and reduced paperwork.

Romano, R. M. (1986). An economic perspective on the public financing of community college. Community College Review, 14, N2, 8-13.

In this article, Romano examines the public financing of community colleges from the economic perspectives of efficiency (the cost of a product compared to its value) and equity (who benefits and who pays).

Economists normally argue that efficiency and equity are best served when individuals pay for the portion of their education that benefits them directly thru increased earning power, personal satisfaction, etc., whereas the state should support that portion of higher education that creates a better citizen. In practical terms, however, it is difficult to precisely measure to whom and to what extent many of higher education's benefits fall.

In relation to this subject, this article offers the following:
1) Full public subsidy of remedial programs is justified as a means of improving the quality of life to all our citizens.
2) Community college courses or programs that emphasize personal enjoyment/enrichment should be fully supported by tuition and user fees. The public should not have to pay any portion of this cost.
3) Vocational and professional schooling, which has become a predominant force in community colleges, offers direct benefits to individuals by providing them with specific job skills. In addition, such programs normally offer very little in the form of general education - i.e. the type of education that usually benefits society.

Based upon these concepts, policy makers should require vocational students to shoulder a greater share of the cost of their education. However, when one further considers the concept of equity, a strong argument can be made for the state supporting vocational training. This argument is based upon the fact that vocational programs attract a large number of lower socioeconomic individuals that probably would not enroll in a traditional college program. Hence, such programs help move these individuals up the economic ladder by providing them with specific job skills and thus move society toward a more equitable distribution of income.

Temple, R. J. (1986). Weak programs: The place to cut. In B. W. Dziech (Ed.) Controversies and decision making in difficult economic times. New Directions for Community Colleges, 53, 65-69.

Many community colleges are faced with the difficult question of how to maintain academic programs during an era of financial uncertainty. Temple emphasizes that the most common approach - i.e. across-the-board cuts that are simple and easy to implement - is normally not the best solution. Such an approach disregards the fact that some programs are more important to the students and the institution than others. Across-the-board reductions often result in quality programs becoming mediocre and mediocre programs becoming weak.

The author indicates that in lieu of across-the-board cuts, community colleges should make selective program cuts or eliminations. The criteria for such cuts must be made based upon; a) the mission and value of the college, b) the needs of the students, and c) the level of quality of the college's various programs.

Walters, L. D. (1987). $ = +; The margin of excellence. Educational Resources Information Center - ERIC Document ED285621 (pp. 1-15).

According to Walters, a foundation can provide a college with the extra monies that are necessary to raise its overall level of excellence.

In this article, the author identifies the elements required for a foundation to be sucessful and discusses the use of annual fund raising programs, major gifts campaigns, and planned giving programs to solicit donations. Walters points out that annual programs are useful to solicit a large number of small unrestricted donations that can be used to supplement operating budgets. One indirect benefit of annual giving programs is that they create a habit of giving with the donors, which often paves the way for the giving of larger gifts in capital campaigns. Finally, the article emphasizes that people make donations not for the tax benefit, but out of a sense of doing something worthwhile with their money. Thus, to enhance giving, college officials should be certain that they communicate not only their financial needs to prospective donors but also communicate the

expected use of the funds and the corresponding benefits that will accrue to the college, students, and/or the community.

Wattenbarger, J. L. and Vader, N. J. (1986). Adjusting to decreased revenues at community colleges in 1985. Community College Review, 13, N4, 20-26.

According to Wattenbarger and Vader, decreases in state and local support, static enrollments, and chronic inflation have forced many community colleges to reexamine their mission and goals. The era of the community college being "all things to all people" may be over. In this article, the authors identify recent trends in community college financing, the responses most institution use to address financing problems, and finally, recommendations as to more suitable actions.

Trends in community college financing include: a) tuition is increasingly becoming a significant revenue source, b) local tax funds are decreasing as a percent of total operating budgets, and c) state tax funds, while increasing in dollar amount, are decreasing as a percent of total operating budget.

The most common strategies adopted by community colleges during periods of revenue decline are: deferring maintenance and equipment purchases, instituting hiring freezes, implementing across-the-board cuts, increasing the use of part-time faculty, and increasing recruitment efforts. Such efforts normally have only short term and

minimal effect on solving the problem and can, if improperly implemented, have a negative effect on faculty and staff morale.

The authors recommend the following strategies to survive and prosper during difficult economic times.

1) Community college leaders need to identify a distinct role and mission for their institution.

2) Once identified, the mission should be clearly articulated to the community and state legislators.

3) New revenue sources such as contract training, raising student fees, and most importantly, the creation of a foundation to solicit donations, must be considered.